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University of Alberta
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Edmonton, Alberta T6G 2R6



HTS Company Ltd.

Annual
Report
1994

Corporate Profile

HTS Company Ltd. is an emerging petroleum and natural gas exploration, development and production company. Headquartered in Calgary, Alberta, the corporation is well-poised to execute its low-risk exploration and development strategy targeted at the Central Alberta Area of the Western Canadian Sedimentary Basin.

HTS is a publicly-traded Alberta Stock Exchange reporting issuer with a total 28,499,314 common voting shares outstanding. The trading symbol is "HTS".

Capital expenditures for 1995 are estimated at \$625,000 and will be funded from internally generated cash flow and a minor amount of bank financing. Although HTS' current production mix is virtually even with respect to oil and gas, the focus of the capital program is on natural gas, where management is confident significant upside exists.

ANNUAL AND SPECIAL MEETING

The Annual and Special Meeting for the common shareholders of HTS Company Ltd. will be held on Tuesday, June 20, 1995 at 10:00 a.m. in the Cardium A & B Rooms, Calgary Petroleum Club, 319 5th Avenue, S.W., Calgary, Alberta.

Abbreviations & Terms

bbl	barrel
bbl/d	barrels per day
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
bcf	billion cubic feet
boe/d	barrels of oil equivalent per day
ngl	natural gas liquids
boe	barrel oil equivalent (1 boe = 10 mcf)
mbbl	thousand barrels
mboe	thousand barrel oil equivalent

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Corporate Highlights

	Year Ended Dec. 31, 1994	Period Apr. 21, 1993 to Dec. 31, 1993	% Change
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Financial (\$)

Total revenues	236,564	-	N/A
Cash flow from operations	53,612	(8,552)	+727
Per share	0.01	(0.01)	N/A
Net loss	27,920	8,552	+226
Per share	-	0.01	N/A
Capital expenditures	5,155,324	55,760	+9,146
Total assets	5,557,445	207,144	+2,583
Long-term debt	699,990	-	N/A
Shareholders' equity	4,556,071	197,483	+2,207
Outstanding common shares,	28,499,314	4,166,664	+584
weighted average	8,168,485	1,062,091	+669

Operating

Daily production

Oil (bbl/d)	13	-	N/A
Gas (mcf/d)	195	-	N/A
Total (boe/d)	33	-	N/A

Reserves

Oil (mbbl)	197	-	N/A
Gas (mmcf)	6,869	-	N/A
Total (mboe)	889	-	N/A

Land holdings (net acres)

Undeveloped	3,710	-	N/A
Total	19,201	-	N/A

Drilling activity

Gross wells	3	-	N/A
Net wells	0.27	-	N/A

Average prices

Oil (\$/bbl)	25.79	-	N/A
Gas (\$/mcf)	1.44	-	N/A

President's Message

It is with pleasure that I report to you on the corporate activity of HTS Company Ltd. (HTS) for the year ending December 31, 1994. This year has evidenced dramatic progress in the business affairs of HTS.

HTS, which was incorporated in April 1993 as a Junior Capital Pool Corporation, has acquired a solid production base along with extensive development prospects through three significant transactions detailed later in this report. Corporate strategy embodied in the acquisitions included identification of stable long life reserves, investigation of potential by-passed pay situations, assessment of the potential of both shallower and deeper horizons in existing wells where the petroleum and natural gas rights were available and evaluation of nearby third party shut-in wells lacking a production infrastructure.

HTS realized a net \$3,300,000 through a common share offering concluded on the Alberta Stock Exchange in November, 1994. The proceeds from this offering were utilized to fund the acquisitions noted previously.

In the fourth quarter, HTS participated in successful gas wells in the Provost and Gilwood areas which will be completed in the spring, and an oil prospect that unfortunately was not successful. An additional land purchase has been completed at Gilwood and the drilling of at least one multi-zone test well is expected on this tract in the coming year.

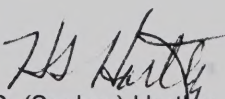
The fiscal year ending in December 1994 does not reflect the full impact of the acquisitions which were concluded during the year. We look forward to a much stronger report for 1995. We have additional acquisitions targeted at present, have increased our holdings at Provost, have made offers on additional interests in the gas plant and lands at Provost and plan a sizeable development program this year in the Provost area.

The recent downturn in natural gas prices has of course been reflected in our cash flow and earnings. HTS is convinced that the current natural gas price slump will be short lived. We will continue to seek low risk acquisitions with additional upside. We are optimistic because HTS is building the solid foundation of a strong and profitable oil and gas company. We see an excellent future for companies such as HTS with demonstrable ability to control exploitation and administrative costs and to maintain focus in their areas of expertise.

As President, this is my swan song. Directly following our Shareholders' Meeting, the newly elected Board of Directors will appoint a very qualified President to direct the activities of HTS on your behalf.

I have experienced great pride in the collective accomplishments in formulating what is now HTS Company Ltd. I want to thank all the staff, directors and shareholders for their continued support and contribution toward our common goals.

On behalf of the Board of Directors,


H.S. (Scobey) Hartley
President, Chairman of the Board and
Chief Executive Officer

LAND

HTS made three significant producing property acquisitions in Alberta in the past year.

In April 1994, HTS acquired producing and undeveloped lands from Cayenne Energy Corporation, the most significant of which are located in the Taber and Twining areas of Alberta.

Through transactions effective in May and September 1994, HTS acquired a sizable interest in a producing property in the Richdale area of Alberta.

Effective November 24, 1994, HTS acquired Prism Petroleum Ltd., a private company with significant holdings primarily in the Provost and Willisden Green areas of Alberta.

Only limited development work was conducted on these properties during 1994 due to the timing of the acquisitions.

At year end, HTS' land holdings totalled 87,720 gross acres (19,201 net), all of which are located in Alberta. Undeveloped holdings totalled 17,440 gross acres (3,710 net).

The company's objectives are to focus on key areas of western Canada, to increase its working interest percentage in core areas where possible and to continue to operate a substantial portion of the properties. Additional acquisition prospects are being examined continuously and the company is hopeful of completing significant acquisitions in the near term.

PRODUCTION

Production for the year averaged 195 mcf/d of natural gas and 13 bbl/d of crude oil and natural gas liquids. For the month of December 1994, production rates were 1,247 mcf/d and 87 bbl/d, a 542% increase over the yearly average.

1995 production is expected to increase by approximately 20% from December 1994 rates due to the acquisition of additional working interests in existing properties, development drilling programs at Provost and the tie-in and start-up of existing shut-in gas wells.

The properties acquired are well maintained by an excellent operating staff. HTS is committed to continue the operation of its facilities at high standards of safety and environmental management.

RESERVES

Proven reserves to HTS' interest at December 31, 1994 were 5.911 bcf of natural gas, 118,000 bbls of crude oil and 78,000 bbls of natural gas liquids for a combined total of 787,000 barrel equivalents. This equates to a 10.2 year producing life at December, 1994 production rates.

Proven plus 50% of probable reserves to the Company's interest were 889,000 barrel equivalents at year end.

Review Of Operations

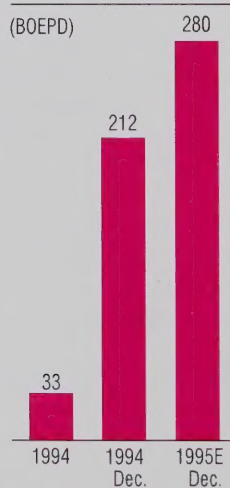
1994 PRODUCTION RATES

	Gas mcf/d	Oil bbl/d	NGL bbl/d	Barrel Equivalents bbl/d
Provost	71	3	-	10
Willisden Green	39	1	4	9
Taber	45	-	-	4
Richdale	29	-	-	3
Twining	4	2	-	3
Others	<u>7</u>	<u>3</u>	<u>-</u>	<u>4</u>
Total	<u>195</u>	<u>9</u>	<u>4</u>	<u>33</u>

DECEMBER 1994 PRODUCTION RATES

	Gas mcf/d	Oil bbl/d	NGL bbl/d	Barrel Equivalents bbl/d
Provost	675	27	3	98
Willisden Green	372	8	36	81
Taber	87	-	-	9
Richdale	81	-	-	8
Twining	7	7	-	8
Others	<u>25</u>	<u>5</u>	<u>1</u>	<u>8</u>
Total	<u>1,247</u>	<u>47</u>	<u>40</u>	<u>212</u>

PRODUCTION



OPERATIONS

HTS participated in the drilling of three wells during 1994 resulting in two (0.22 net) successful gas wells and one (0.05 net) abandonment. One additional wellbore was acquired at Provost at a nominal cost.

Development plans for the next few years include drilling of some twenty infill gas wells at Provost, as well as acquisition of deeper rights and investigation of bypassed pay zones in HTS' area of ownership. Custom processing of adjoining reserves will also be pursued vigorously. The timing of this development work, which has been delayed from earlier projections, will be finalized to fit gas sales contract requirements and market opportunities. It is the company's feeling that the current natural gas price slump will be short-lived and that prices will firm-up substantially over the next two years.

During the summer of 1995, the Company intends to recompleate and tie in six suspended gas wells in the Provost and Auburndale areas of Alberta, to drill and tie in from five to ten infill development wells in Provost and to continue exploration in the Gilwood area.



Review Of Operations

Management's Discussion And Analysis

The following discussion and analysis of operating results and financial condition should be read in conjunction with the financial statements commencing on page 8 of this report.

HIGHLIGHTS

HTS established itself as an aggressive, emerging player in the oil and gas industry through sound business manoeuvres.

- March 19, 1994 - HTS completed its major transaction, where it acquired certain oil and gas assets of Cayenne Energy Corporation, valued at \$466,530, by issuing 2,332,650 common shares at \$0.20.
- May/September 1994 - HTS acquired gas reserves in the Shearness/Richdale Area, Alberta by issuing 500,000 common shares at \$0.20, and payment of \$126,000.
- November 23, 1994 - HTS acquired the oil and gas assets of three private companies (collectively, Prism), valued at \$4,301,614, by applying the net proceeds from its Exchange Offering Prospectus, creating a debenture payable in the amount of \$699,990 and by issuing 3,000,000 common shares at \$0.20.

RESULTS OF OPERATIONS

The year ended December 31, 1994 contains the production results of the Cayenne acquisition, which had an effective date of April 5, 1994, and the Prism acquisition, which had an effective date of November 24, 1994. Consequently, certain statistics predicated in barrel equivalents of production based on an annualized December, 1994 exit production rate have been included to provide meaningful information.

Review of the HIGHLIGHTS of this discussion illustrates the magnitude of activity that occurred during this fiscal period. While 18,500,000 common shares were issued for cash by way of the Exchange Offering Prospectus, 5,832,650 common shares were issued directly for oil and gas property. Management was continually engaged in assessment and evaluation procedures.

Year end results reflect oil and gas revenues net of royalties of \$211,720, of which \$139,468 (59%) pertain to oil and natural gas liquids and \$97,096 (41%) relate to natural gas sales. Royalties paid of \$24,844 included crown royalties that qualified for a rebate of \$9,615 applied for under the Alberta Royalty Tax Credit Program (ARTC). Total oil and ngl production averaged 13 bbl/d at a price of \$25.79 per barrel. Gas production averaged 195 mcf/d at a price of \$1.44 per mcf.

Lease operating expense aggregated \$40,333 or \$3.35 per boe, while royalties equated to \$1.26 per boe after ARTC, resulting in a contribution from field operations equal to \$14.92 per boe or \$181,002. Depletion of oil and gas assets was calculated to be \$77,105 or \$6.25 per boe. This figure equates to HTS' carrying cost on a boe basis of its continuing oil and gas property, giving value to proven reserves only. HTS produced 1.5% of its proven reserves during 1994.

General and administrative expense of \$121,138 equates to \$10.06 per boe, but using December 1994 production data, annualized, would equate to \$1.57 per boe, not recognizing any increase in administrative costs due to an increasing production base.

Interest expense of \$6,252 on the \$699,990 debenture was recorded at chartered bank prime rate plus 1 1/2% for the period.

CAPITAL EXPENDITURES

Capital expenditures in 1994 aggregated \$5,155,324 and majorly relate to the acquisition of oil and gas assets through the acquisition of shares of the three private companies collectively known as Prism.

LIQUIDITY AND CAPITAL RESOURCES

HTS' 1994 capital expenditure program was financed through \$53,612 of internally generated cash flow from operations, \$4,386,508 relating to equity issues, \$699,990 of debenture financing and proceeds realized on the disposition of non-core properties in the amount of \$57,300.

HTS' working capital has increased to \$183,809 from \$141,723 as at December 31, 1993. Short term liquidity requirements are well covered.

The capital budget for 1995 anticipates spending in the order of \$625,000 to drill, complete and equip wells in company core areas. These expenditures will be funded by cash flow and bank financing.

HTS is embarking on a development program for natural gas that will focus on exploitation of current land holdings and expansion in core areas.

BUSINESS RISKS

The company's principal business risks arise from the nature of crude oil and natural gas markets, uncertain results of capital expenditure programs and volatility of interest and exchange rates.

Sensitivity to fluctuations in key business conditions as at December 31, 1994 is illustrated in the table below.

	Impact on Cash Flow <u>Per Common Share</u> \$
Commodity price changes	
Crude oil (\$1.00 per barrel)	0.001
Natural gas (\$0.10 per mcf)	0.002
Production volume changes	
Crude oil (100 bbl/d)	0.019
Natural gas (1 mmcf/d)	0.014
Financial changes	
Interest rate (one percent)	-
Exchange rate (Cdn \$0.01)	-

OUTLOOK

HTS' 1995 budget assumes an average price for oil of \$24.24 and a natural gas price of \$1.25 per mcf.

Assuming no significant changes in prices or cost, the resulted anticipated cash flow, in conjunction with a credit line not exceeding one year's cash flow, will finance our capital expenditure program for 1995.

Michael A. Kociuba

Professional Corporation

Chartered Accountant

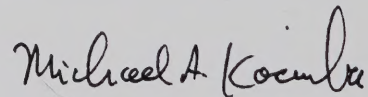
AUDITOR'S REPORT

To the Shareholders of
HTS Company Ltd.

I have audited the consolidated balance sheets of HTS Company Ltd. as at December 31, 1994 and 1993 and the consolidated statements of loss and deficit and changes in financial position for the year ended December 31, 1994 and for the period April 21, 1993 (date of incorporation) to December 31, 1993. These consolidated financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the year ended December 31, 1994 and for the period April 21, 1993 (date of incorporation) to December 31, 1993 in accordance with generally accepted accounting principles.



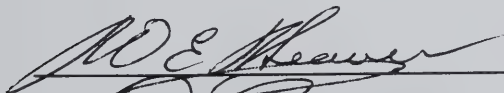
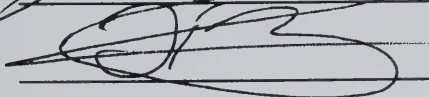
CHARTERED ACCOUNTANT

CALGARY, Alberta
April 27, 1995.

HTS COMPANY LTD.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1994 AND 1993

	<u>1994</u>	<u>1993</u>
<u>ASSETS</u>		
CURRENT		
Cash	\$ 80,594	\$ 145,021
Accounts receivable and accruals	264,090	4,371
Deposits and prepaids	137,509	-
Due from related party	<u>-</u>	<u>1,992</u>
	482,193	151,384
PETROLEUM AND NATURAL GAS PROPERTIES (Note 3)	<u>5,075,252</u>	<u>55,760</u>
	<u>\$ 5,557,445</u>	<u>\$ 207,144</u>
<u>LIABILITIES</u>		
CURRENT		
Accounts payable and accrued liabilities	<u>\$ 298,384</u>	<u>\$ 9,661</u>
LONG-TERM DEBT (Note 4)	<u>699,990</u>	<u>-</u>
PROVISION FOR SITE RESTORATION COSTS	<u>3,000</u>	<u>-</u>
<u>SHAREHOLDERS' EQUITY</u>		
CAPITAL STOCK (Note 5)	4,592,543	206,035
DEFICIT	<u>(36,472)</u>	<u>(8,552)</u>
	<u>4,556,071</u>	<u>197,483</u>
	<u>\$ 5,557,445</u>	<u>\$ 207,144</u>

APPROVED ON BEHALF OF THE BOARD

 Director
 Director

HTS COMPANY LTD.
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

	Year Ended December 31, <u>1994</u>	Period April 21, 1993 to December 31, <u>1993</u>
REVENUES		
Oil and gas, net of royalties	\$ 211,720	\$ -
Alberta royalty tax credits	<u>9,615</u>	<u>-</u>
	<u>221,335</u>	<u>-</u>
EXPENSES		
General and administrative	121,138	8,552
Depletion and amortization	78,532	-
Operating	40,333	-
Interest on long-term debt	6,252	-
Site restoration costs	<u>3,000</u>	<u>-</u>
	<u>249,255</u>	<u>8,552</u>
NET LOSS FOR THE YEAR	(27,920)	(8,552)
DEFICIT, BEGINNING OF YEAR	<u>(8,552)</u>	<u>-</u>
DEFICIT, END OF YEAR	<u>\$ (36,472)</u>	<u>\$ (8,552)</u>
Basic Loss Per Share	<u>\$ (0.003)</u>	<u>\$ (0.003)</u>

HTS COMPANY LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31, <u>1994</u>	Period April 21, 1993 to December 31, <u>1993</u>
OPERATING ACTIVITIES		
Net loss for the year	\$(27,920)	\$(8,552)
Items not affecting cash		
Depletion and amortization	78,532	-
Provision for site restoration costs	<u>3,000</u>	<u>-</u>
	53,612	(8,552)
Net changes in non-cash working capital balances related to operations (*)	<u>(106,513)</u>	<u>3,298</u>
	<u>(52,901)</u>	<u>(5,254)</u>
FINANCING ACTIVITIES		
Issue of capital stock, net of issue costs	3,219,978	206,035
Proceeds of long-term debt	699,990	-
Issue of capital stock for subsidiary companies	600,000	-
Issue of capital stock for petroleum and natural gas properties	<u>566,530</u>	<u>-</u>
	<u>5,086,498</u>	<u>206,035</u>
INVESTING ACTIVITIES		
Proceeds from sale of petroleum and natural gas properties	57,300	-
Acquisition of petroleum and natural gas properties	(842,199)	(55,760)
Acquisition of notes payable	(1,339,320)	-
Acquisition of subsidiaries	<u>(2,973,805)</u>	<u>-</u>
	<u>(5,098,024)</u>	<u>(55,760)</u>
INCREASE (DECREASE) IN CASH	(64,427)	145,021
CASH, BEGINNING OF YEAR	<u>145,021</u>	<u>-</u>
CASH, END OF YEAR	<u>\$ 80,594</u>	<u>\$ 145,021</u>
* Net changes in non-cash working capital		
Accounts receivable and accruals	\$(259,719)	\$(4,371)
Deposits and prepaids	(137,509)	-
Due from related party	1,992	(1,992)
Accounts payable and accrued liabilities	<u>288,723</u>	<u>9,661</u>
	<u>\$(106,513)</u>	<u>\$ 3,298</u>

HTS COMPANY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1994 AND 1993

1. SUMMARY OF ACCOUNTING POLICIES

a) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Prism Petroleum Ltd.

b) Petroleum and Natural Gas Properties and Related Depletion and Amortization

The Company follows the full cost method of accounting under which all costs related to the exploration for and development of petroleum and natural gas properties are capitalized into a single Canadian cost centre. Such costs include land acquisition costs, geological and geophysical expenses, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells, and related overhead charges.

The costs related to a cost centre from which there is production, together with the costs of production equipment, are depleted and amortized on the unit of production method based on the estimated proven reserves as determined by independent reservoir engineers. Natural gas reserves and production are converted into equivalent barrels of oil based upon the relative energy content.

Costs directly associated with the acquisition and evaluation of unproved properties are initially excluded from the computation of depletion. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to all other capitalized costs which are depleted.

In applying the full cost method, the Company calculates a ceiling test which restricts the capitalized costs less accumulated depreciation and amortization from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, after deducting estimated future general and administrative expenses, future removal and site restoration costs, financing costs and income taxes, all undiscounted and unescalated.

Sales of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized, unless such adjustments would significantly alter the rate of depletion and amortization by more than twenty percent.

c) Other Capital Assets and Related Amortization

The Company provides for amortization on other capital assets using the declining balance method at an annual rate of 20%.

d) Joint Ventures

Substantially all of the Company's exploration and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

e) Site Restoration Costs

Estimated future removal and site restoration costs, net of expected recoveries, are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Company's engineers based on current regulations, costs, technology and industry standards. Removal and site restoration expenditures will be charged to the accumulated provision account as incurred.

f) Income Taxes

The Company follows the tax allocation method of accounting for corporate income taxes. Deferred taxes are provided to the extent that current taxes have been reduced by claiming amounts, primarily exploration and development costs and capital cost allowance, in excess of the related depletion and amortization recorded in the financial statements.

HTS COMPANY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1994 AND 1993

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

g) Loss Per Share

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the year.

2. ACQUISITIONS

On November 24, 1994, the Company acquired all of the issued and outstanding shares of three private oil and gas companies carrying on business in the province of Alberta and a wholly-owned operating subsidiary company of the three companies, Prism Petroleum Ltd. The acquisition has been accounted for using the purchase method. Accordingly, the results of operations of the three companies since the date of acquisition are included in these consolidated financial statements. The total purchase price has been allocated on fair values as follows:

Consideration	
Cash	\$ 1,673,815
Debentures	699,990
Capital stock	<u>600,000</u>
	\$ 2,973,805
	<u> </u>
Net assets acquired	
Net working capital	\$ 11,053
Other assets	458
Petroleum and natural gas properties and equipment	4,301,614
Notes payable	<u>(1,339,320)</u>
	\$ 2,973,805
	<u> </u>

On November 25, 1994, the three subsidiary companies amalgamated with the Company.

3. PETROLEUM AND NATURAL GAS PROPERTIES

	1994		1993
	Cost	Accumulated Depletion and Amortization	Net Book Value
Petroleum and natural gas properties, including development thereon and production equipment	\$ 5,139,512	\$ 77,105	\$ 5,062,407
Other capital assets	<u>14,272</u>	<u>1,427</u>	<u>12,845</u>
	\$ 5,153,784	\$ 78,532	\$ 5,075,252
	<u> </u>	<u> </u>	<u> </u>

Certain petroleum and natural gas properties having a net book value of \$ 3,877,469 (1993 -\$ nil) for accounting purposes have a nil cost for income tax purposes.

During the year the Company capitalized \$ 139,323 (1993 - \$ 55,760) of consulting and overhead costs directly related to acquisition, exploration and development activities.

During fiscal 1993, the Company had not commenced commercial production. Costs to that date consist of deferred costs incurred in the identification and evaluation of potential petroleum natural gas property acquisitions.

HTS COMPANY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1994 AND 1993

4. LONG-TERM DEBT

The debentures bear interest at prime plus 1½% and are secured by a fixed and floating charge debenture with a fixed charge over certain petroleum and natural gas properties and a floating charge over all of the assets of the Company. The agreement provides that the debentures, which have interest only payments for the first two years, will mature on November 24, 1999 and are repayable in aggregate semi-annual installments of \$ 116,665 commencing May 24, 1997. Subsequent to December 31, 1994 the debenture holders granted a postponement of claim in favour of the bank (see note 11).

5. CAPITAL STOCK

a) Authorized

Unlimited number of common voting shares of no par value

Unlimited number of preferred shares which may be issued in one or more series. The directors are authorized to fix the number of shares in each series and determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

b) Issued

	Number of Common Shares	Stated Value
Issued for cash to directors and management	2,166,664	\$ 50,000
Issued for cash on public offering	2,000,000	200,000
Share issue costs	-	(43,965)
Balance, December 31, 1993	4,166,664	206,035
Issued for petroleum and natural gas properties (see note 7(b))	2,332,650	466,530
Issued for cash on public offering	18,500,000	3,700,000
Share issue costs	-	(480,022)
Issued for acquisition of subsidiary companies (see note 2)	3,000,000	600,000
Issued for petroleum and natural gas properties	500,000	100,000
Balance - December 31, 1994	28,499,314	\$ 4,592,543

c) Stock Options

The following options to purchase shares are held by directors, officers and employees of the Company as at December 31, 1994:

Number of Shares	Exercise Price Per Share	Expiry Date
416,660	\$ 0.10	June 30, 1998

d) Agent's Option

- (i) During the period ended December 31, 1993 the Company completed an offering to the public by way of a prospectus pursuant to which the agent was granted a non-transferable option which entitles the agent to purchase 200,000 common shares at a price of \$ 0.10 per common share at any time up to June 21, 1995.
- (ii) During the year ended December 31, 1994 the Company completed an Exchange Offering Prospectus pursuant to which the agent was granted a non-assignable option to purchase 3,700,000 common shares at a price of \$ 0.20 per common share and is exercisable on or before November 24, 1996.

HTS COMPANY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1994 AND 1993

5. CAPITAL STOCK (Continued)

e) Escrow

As at December 31, 1994 - 6,103,863 (1993 - 2,166,664) common shares are held in escrow by the transfer agent subject to the direction or determination of the relevant regulatory authorities.

6. INCOME TAXES

The provision for income taxes reflects an effective tax rate which differs from combined federal and provincial statutory tax rates. The main differences are summarized as follows:

	Year Ended December 31, <u>1994</u>	Period Ended December 31, <u>1993</u>
Loss before income taxes	\$(27,920)	\$(8,552)
Corporate tax rate	44.3%	44.3%
Calculated income tax provision	\$(12,368)	\$(3,788)
Increase (decrease) in taxes resulting from:		
Alberta royalty tax credits	(4,259)	-
Crown royalties and crown lease rentals	10,977	-
Resource allowance	(5,565)	-
Non-deductible depletion	26,161	-
Share issue costs	(46,425)	(2,721)
Future tax benefits not recognized	<u>31,479</u>	<u>6,509</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company has incurred losses for income tax purposes of approximately \$ 202,000, the related benefit of which have not been recorded in the financial statements. Unless sufficient taxable income is earned, these losses will expire between 2000 to 2001.

As at December 31, 1994, the Company has available for deduction against future taxable income the following amounts:

		Annual Rate <u>of Claim</u>
Canadian oil and gas property expenditures	\$ 729,445	10%
Canadian development expenditures	\$ 87,078	30%
Foreign exploration and development expenditures	\$ 20,367	10%
Capital cost allowances	\$ 241,047	20-30%
Unamortized share issue costs	\$ 413,047	20%

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7. RELATED PARTY TRANSACTIONS

- a) During the year the Company engaged a related party to evaluate a number of potential petroleum and natural gas acquisitions and paid \$ 67,769 (1993 - \$ 33,226) for these services.
- b) During the year ended December 31, 1994, the Company acquired various petroleum and natural gas properties from a related party for a total consideration of \$ 466,530 which was satisfied by the issuance of 2,332,650 common shares from treasury at an ascribed price of \$ 0.20 per share.
- c) During the year ended December 31, 1994, the Company sold a petroleum and natural gas property to a related party for a total consideration of \$ 57,300.
- d) During the year the Company paid consulting fees to a director of the Company totalling \$ 44,884 (1993 - \$ nil).

8. CONTINGENCIES

- a) The Company has outstanding a letter of credit in the amount of \$ 25,000 which is due to expire June 30, 1995.
- b) A statement of claim has been issued against the three subsidiary companies that were acquired during the year. In the opinion of management, the claim is without merit and no provision has been made for it in the accounts.

9. COMMITMENT

The Company's minimum annual rentals for office premises, exclusive of realty taxes and occupancy costs, in each of the next five years is \$ 11,250 per annum.

10. SEGMENTED INFORMATION

The Company's dominant industry segment is the exploration and development of petroleum and natural gas properties in Canada.

11. SUBSEQUENT EVENT

Subsequent to December 31, 1994 the Company established a demand revolving line of credit facility for up to \$ 250,000 bearing interest at the prime bank rate plus 1½% per annum. The Company has provided a fixed and floating charge debenture over all of the petroleum and natural gas properties, a general security agreement covering all of the Company's assets and an assignment of production proceeds.

DIRECTORS AND OFFICERS

Corporate Information

Herman S. Hartley

Chief Executive Officer, President and Director
Calgary, Alberta

N.W. Johns

Director
Calgary, Alberta

Thomas F. Bugg

Director
Calgary, Alberta

Linette M. Kelly

Secretary, Treasurer
Calgary, Alberta

William E. Heaver

Director
Calgary, Alberta

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Chartered Accountant
Calgary, Alberta

Banker

Canadian Imperial Bank of Commerce
Calgary, Alberta

Registrar and Transfer Agent

The R-M Trust Company
Calgary, Alberta

Stock Exchange Listing

The Alberta Stock Exchange
Symbol HTS

